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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 3, 2010**

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UAE Oil Minister Mohammed al-Hamli said oil prices at \$70/barrel are comfortable for both producers and consumers.

The adviser to Nigeria's President on petroleum issues, Emmanuel Egbogah said Nigeria will seek permission from OPEC to increase its crude oil production quota. Nigeria plans to increase its oil production to 4 million bpd by 2012 from the current 2.6 million-2.7 million bpd. Nigeria's current OPEC quota allows the country to produce up to 2.04 million bpd.

#### **Market Watch**

According to ADP, private business hired new workers in October at a pace almost double what the market expected. Private sector jobs in the US increased by 43,000 in October compared with expectations of an increase of 22,000. The estimated change in employment for September was revised to a smaller decline of 2,000 instead of a decline of 39,000 initially reported.

The US Commerce Department said US factory orders increased more than expected in September, the third consecutive month of growth. US manufactured goods orders increased by 2.1% to \$420.02 billion. This is compared with an expected overall factory order increase of 1.6%.

The Institute for Supply Management said its non-manufacturing index increased to 54.3 from 53.2 in September. It was the 10<sup>th</sup> consecutive month of expansion.

Trafigura Beheer BV renewed a time charter on a supertanker for up to six months to continue storing gasoil off the West African coast. The move comes after it canceled a provisional booking for the newly built supertanker Saham to store Asian gasoil off West Africa.

World Bank senior China economist Louis Kuijs said inflation of 3-5% is not necessarily alarming for China since some of the inflation is fueled by needed adjustments such as higher wages and electricity prices. The World Bank on Wednesday raised its forecast for China's 2010 current account surplus to \$320 billion from a previous forecast of \$260 billion. The World Bank also cut its forecast for China's CPI next year to a 3.3% rise from a previously predicted 2.8%.

Venezuela is once again setting aside a portion of its oil income for the Fonden development fund. PDVSA's President Hugo Chavez said that with Venezuelan crude prices remaining above \$70/barrel, the Fonden tax has been re-imposed on all oil sales.

#### **DOE Stocks**

**Crude** – up 1.95 million barrels  
**Distillate** – down 3.568 million barrels  
**Gasoline** – down 2.689 million barrels  
**Refinery runs** – down 1.9%, at 81.8%

CFTC chairman Gary Gensler said he expects to move forward with derivatives reforms on set timelines now that the midterm election is over. He said swaps trades must be reported as soon as possible in order to improve what has traditionally been an opaque derivatives market. He said there would be some delay allowed for large block trades. He also

said that CFTC is reviewing its existing rules for futures commission merchants, commodity pool operators, commodity trading advisors and introducing brokers to see whether the regulations need adjustment. Separately, Bart Chilton, a CFTC commissioner said the CFTC is monitoring exchange-traded funds that invest directly in physical commodities. Exchange traded funds investing directly in gold and copper have emerged in the wake of controversial new position limits introduced by the CFTC to regulate holdings in energy, metal and agricultural derivatives.

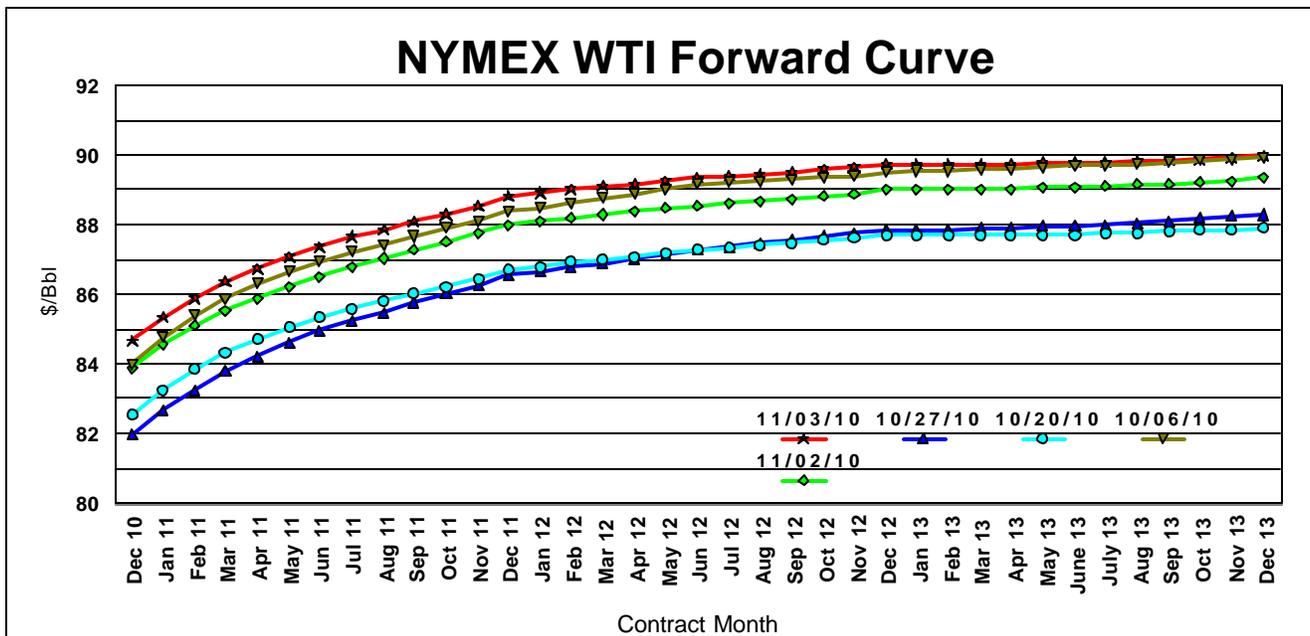
<b>October Calendar Averages</b>
<b>CL – \$83.85</b>
<b>HO – \$2.2997</b>
<b>RB – \$2.1135</b>

**Refinery News**

Colonial Pipeline is freezing nominations of distillate shipments on its main line north of Collins, Mississippi for cycle 64 as demand for space exceeded capacity.

A fluid catalytic cracking unit at Citgo Corp’s 167,000 bpd refinery in Lemont, Illinois was shut on Tuesday due to a brief fire. The incident did not damage the unit. The fluid catalytic cracking unit is currently offline to make minor repairs.

ConocoPhillips had a transformer switch early Tuesday morning at its 238,000 bpd Bayway refinery in Linden, NJ. The transformer switched causing the company to reroute power to another transformer. The refinery has lost power several times over the past few weeks as planned maintenance is underway.



Total SA’s 153,000 bpd Vlissingen refinery in the Netherlands will shut down its hydrocracker complex starting November 4<sup>th</sup> until November 8<sup>th</sup> for maintenance.

Oman Refineries and Petrochemical Co has shut its 116,000 bpd oil refinery in Sohar. A company spokesman did not say when the plant would resume operations.

China’s Sinopec plans to process 583,000 tons or 4.26 million bpd of crude in November amid increasing domestic diesel supply tightness.

**Production News**

According to a Dow Jones Newswire survey, OPEC's total oil production in October increased by 184,000 bpd on the month to 29.341 million bpd from 29.157 million bpd in September. It reported that output from OPEC's 11 quota bound members increased by 204,000 bpd to 26.966 million bpd in October from 26.762 million bpd in September. The 11 quota bound members of OPEC produced 2.12 million bpd above the group's quota of 24.845 million bpd at a compliance rate of 49.5% compared with September's 54.4%.

A shipping source said high winds around Iraq's southern Basra offshore oil export terminals halted crude exports on Wednesday. Exports from the Basra terminals flowed at a rate of 1.584 million bpd on Tuesday.

The head of the SAFE union representing 2,300 Statoil workers, Terje Nustad said there is a growing backlog of safety issues at the Norwegian oil and gas producer. He expects more shutdowns more often at the company's fields off Norway. He said older platforms, including Statfjord and Gullfaks, are vulnerable to maintenance outages.

Statoil submitted an application for new production licenses in the Barents Sea and the Norwegian Sea in the 21<sup>st</sup> licensing round on the Norwegian continental shelf. Awards are expected in the spring of 2011. A total of 51 blocks have been announced in the Barents Sea and 43 blocks in the Norwegian Sea. Separately, Statoil said Gullfaks South and Kviteseid reduced capacity will have some impact on 2011 production.

Russia's Rosneft increased its oil production forecast for this year to over 119 million metric tons or between 7% and 7.5% more than last year.

Brazil's Petrobras produced 2.53 million bpd of oil equivalent in September, down 1.6% on the year and down 2.6% on the month. Maintenance shutdowns at three platforms in the Campos Basin, P-35(Marlin), PGP-1(Garoupa) and P-33(Marlim) and the UPGNII Gas processing plant at the Urucu field(Amazonas), caused the slightly decline in production.

Colombia is set to add 2.4 billion barrels of oil to its oil reserves by 2014. The country's exploration boom is helping it increase production and its reserves from the current level of 2 billion barrels. Colombia could add as much as 10 billion barrels of oil in the next 10 years. In October, Colombia produced above its target of 800,000 bpd set for year end. It produced 798,000 bpd in September, up 17.4% on the year.

OPEC's news agency reported that OPEC's basket of crude increased by \$1.35/barrel to \$81.90/barrel on Tuesday from \$80.55/barrel on Monday.

### **Market Commentary**

Crude oil extended its gains from yesterday as it responded to today's inventory report and news from the U.S. Federal Reserve that it would purchase \$600 billion worth of Treasuries from now through June. Both heating oil and gasoline also posted gains, pulled higher by supportive inventory numbers. Crude oil rose to its highest level in six-months, trading above \$85.00. Despite today's higher move, front month spreads barely moved, indicating that there is not a lack of short-term supply. Based upon a spot month contract, crude oil has gained 7.4% from the \$79.25 low of October 19. During the same time frame the spot month spread has been fluctuating in a tight range between -.77 and -.65. The December/January spread settled today at -.66 virtually unchanged from the -.67 level of October 19. This is an indication that there is no immediate short-term shortage of supply expected. We believe that the movement in flat price is basically a reactionary move by investors and that prior to its expiration, the December contract should encounter pressure. Based upon this, we would be cautiously long, working with tight stops.

Crude oil: Dec 10 362,718 +2,587 Jan 11 189,429 +2,043 Feb 11 79,734 +1,951 Totals 1,433,324 +8,998 Heating oil: Dec 10 96,555 -4,204 Jan 11 74,952 +1,450 Feb 11 27,391 +1,454 Totals 318,482 -1,173 Rbob: Dec 10 97,286 -3,747 Jan 11 64,093 +1,619 Feb 11 20,789 +67 Totals 277,836 -653

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7943	8404	21860	23390	20300	
7911	8536	21650	23490	20130	22345
7760	8610	20700	23574	18750	24880
7598	8715		23775	18240	27085
7298				<b>16010</b>	

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